



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

DATE: April 19, 2023  
TO: House Taxation Committee  
FROM: LFD Revenue Team  
RE: General Fund Revenue Forecast Update #4

### **GENERAL FUND REVENUE SUMMARY**

This is the fourth of the monthly revenue forecast updates throughout the 2023 Session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2025 Biennium general fund revenue estimate. This update is based on actual revenue collections received through the end of March 2023 and updated national and Montana forecasts from IHS.

## Forecast Update Based on New Data

The April economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$68.5 million higher than the official estimate in HJ 2 over the three-year forecast period. The table below shows the HJ 2 estimate, and the LFD April update based on revised assumptions.

April LFD General Fund Revenue Estimate Update							
FY	HJ 2	April Update	\$ Difference	OTO Transfers	OTO TCA Interest	HJ 2 Growth	Update Growth
2022	\$3,891.6	\$3,891.6	\$0.0	\$135.9			
2023	3,800.3	3,811.5	\$11.2	260.8	76.5	-2.3%	-2.1%
2024	3,710.0	3,747.3	\$37.2		111.2	-2.4%	-1.7%
2025	3,782.7	3,803.0	\$20.3		75.0	2.0%	1.5%
3-Year	\$11,293.0	\$11,361.7	\$68.7	\$260.8	\$262.7		

When looking at the 2025 Biennium, the updated forecasts produce a biennial estimate that is \$57.5 million or 0.77% above the biennial numbers adopted in HJ 2. The table below shows a summary by source of changes compared to HJ 2.

April LFD Update Summary of Changes from HJ 2 (\$ Millions)				
	FY 2023	FY 2024	FY 2025	3-Year Total
Individual Income Tax	\$ (19.3)	\$ (9.5)	\$ (15.6)	\$ (44.4)
Property Tax	-	-	-	-
Corporate Income Tax	0.1	8.0	8.0	16.1
Vehicle Taxes & Fees	0.5	0.3	0.3	1.1
Oil & Natural Gas Tax	(0.8)	3.7	4.0	6.9
Insurance Tax	2.3	3.8	2.3	8.5
Video Gaming Tax	(0.6)	(1.6)	(2.1)	(4.2)
TCA Interest Earnings	27.1	36.6	28.3	92.0
Lodging Sales Tax	(4.8)	(9.3)	(10.8)	(24.9)
Remaining Sources	6.7	5.2	5.6	17.5
<b>General Fund Total</b>	<b>\$11.2</b>	<b>\$37.2</b>	<b>\$20.3</b>	<b>\$68.7</b>

## Marijuana Tax Revenue

Through March, marijuana revenue collections total \$40.7 million. HJ 2 assumed that total marijuana revenue collections for FY 2023 would total \$51.2 million, resulting in a fiscal year-end general fund transfer of \$27.4 million. The table below shows total collections through March and an extrapolation for final collections based upon year-to-date data. By fiscal year-end, marijuana revenue is expected to come in slightly higher than HJ 2, and approximately \$12.0 million higher than anticipated in the fiscal note from the 2021 Legislative Session.

Marijuana Tax Collections (\$Millions)	FY	Total Marijuana Tax	General Fund Marijuana Tax
HB 701 Fiscal Note	2023	\$42.45	\$21.62
HJ 2	2023	50.95	27.40
Collections Through March	2023	40.72	N/A
YTD Extrapolation (DOR)	2023	54.43	29.62
Difference from Fiscal Note		\$11.98	\$8.00
Difference from HJ 2		\$3.48	\$2.22

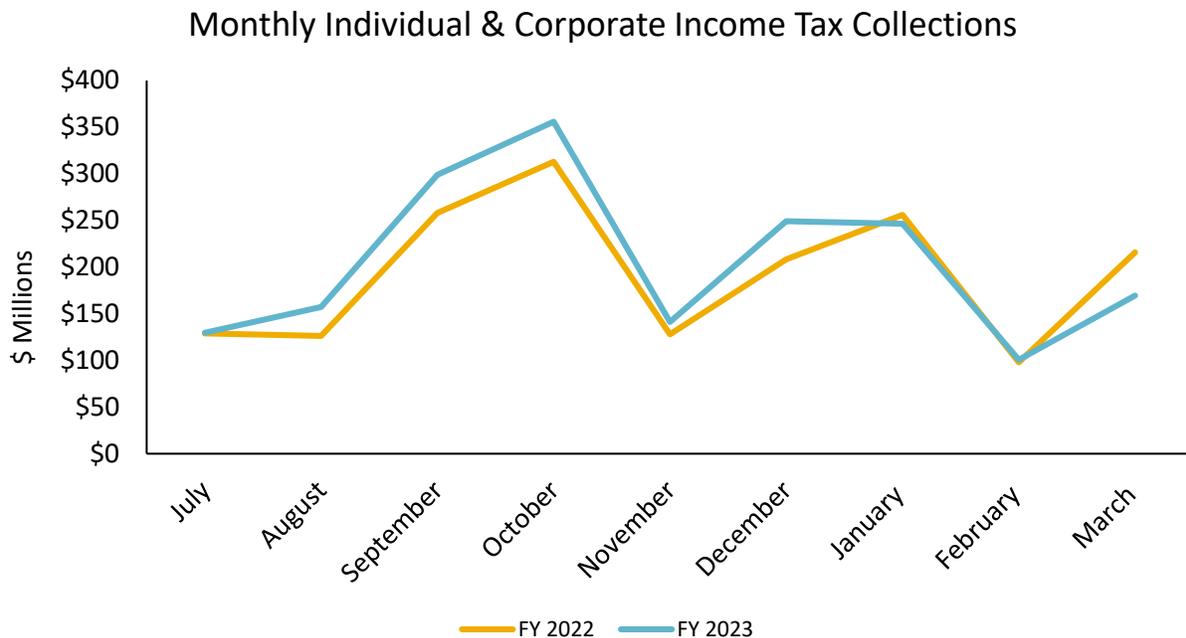
## General Fund Year-to-Date Revenues

This monthly revenue update analyzes revenue collections through the end of March and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2023 relative to the revenue estimate contained in HJ 2.

FY 2023 general fund revenues through the end of March are \$504.5 million or 22.0% above FY 2022 revenues through the same period. **Ongoing revenue growth, which excludes a one-time-only general fund revenue transfer, is currently 10.6% above the FY 2022 values through the same time.**

While revenue growth has been strong, it has slowed in the last few months and this is expected to continue through the rest of the fiscal year. The last quarter of FY 2022 saw extremely strong collections across multiple revenue sources. Current levels of growth will be difficult to maintain compared to those strong collections. In addition, the LFD believes that a large portion of individual income tax collections in April of FY 2022 were of the one-time-only nature, and as a result will not show up in the current fiscal year, further contributing to slowed growth.

Finally, as the chart below shows, the last three months' income tax collections (both individual and corporate) have been below last year's for the last three months, compared to the first six months when they were significantly higher.



Throughout the Legislative Session the LFD will continue to monitor year-to-date collections and update the forecast models used to generate the estimate contained in HJ 2.

# END OF YEAR EXTRAPOLATIONS

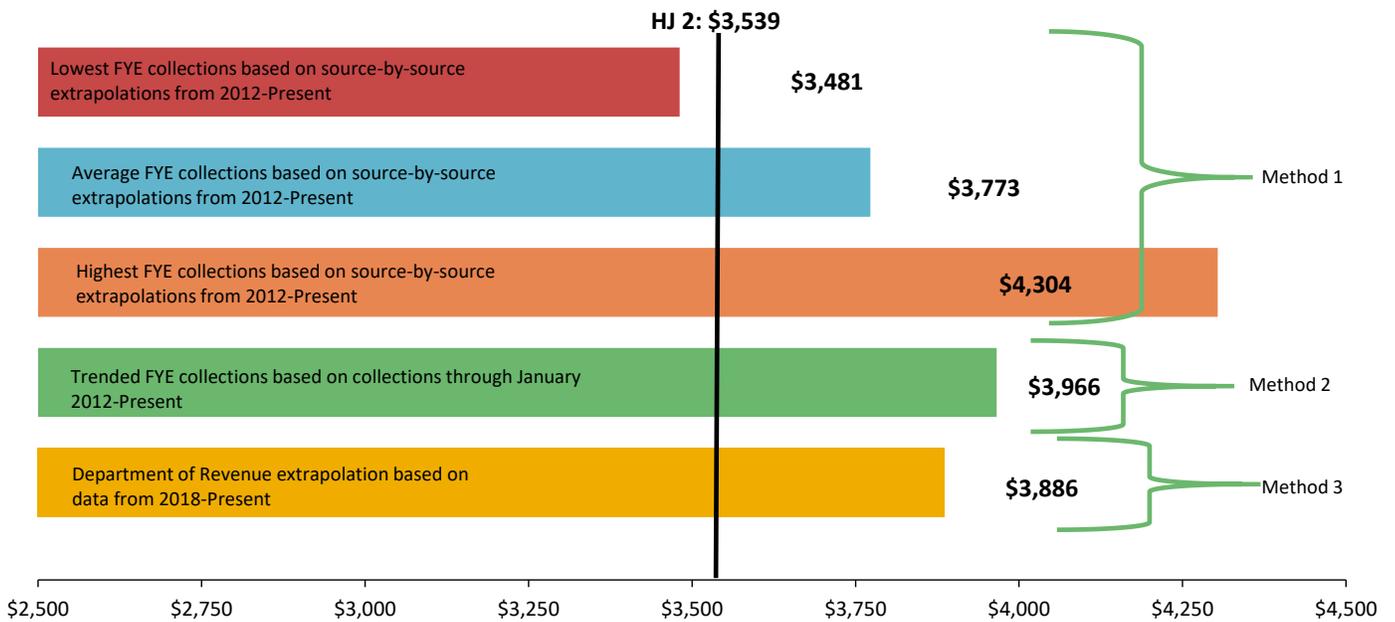
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through March was calculated dating back to FY 2012. Collections through March for each source were then divided by the average collection percentage since FY 2012. Each source’s estimate was then added to create a final year-end collection amount. Using this method, ongoing fiscal year end revenue is estimated to be \$3,773 million. The lowest and highest growth through March by revenue source was also applied to year-to-date collections to provide an upper (\$4,304 million) and lower (\$3,481 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through March to predict year-end collections using historical trends. Like Method 1, it utilizes collection patterns since FY 2012. This method predicted final collections of \$3,966 million.

Method 3: The Department of Revenue publishes monthly revenue monitoring reports and provides an extrapolation for final collections. The report uses the last five years of collection data. This method produces a year-end estimate of \$3,886 million.

The estimates above range from \$765 million above HJ 2 to \$58 million below HJ 2. At this point in the fiscal year, Method 1 (blue box below), has historically been a sufficient extrapolation method to predict year end revenues. Currently, that extrapolation is \$234 million higher than HJ 2.

FY 2023 Year-End Ongoing Revenue Extrapolations Based on Data Through March (\$ Millions)



# YEAR-TO-DATE GENERAL FUND REVENUE

## General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2022	HJ 2 FY 2023	HJ 2 Est. % Change	March FY 2022	March FY 2023	YTD Difference	YTD % Change	YTD % Change
<b>Largest Seven Sources</b>								
Individual Income Tax	\$2,393.807	\$2,033.784	-15.0%	\$1,562.062	\$1,674.837	\$112.775	7.2%	
Property Tax	335.114	351.821	5.0%	206.159	209.702	3.543	1.7%	
Corporate Income Tax	293.683	284.335	-3.2%	169.685	173.613	3.928	2.3%	
Vehicle Taxes & Fees	121.138	121.546	0.3%	81.436	76.977	(4.459)	-5.5%	
Oil & Natural Gas Taxes	70.510	78.712	11.6%	14.939	20.820	5.880	39.4%	
Insurance Tax	97.940	101.387	3.5%	34.058	63.615	29.557	86.8%	
Video Gaming Tax	77.881	80.185	3.0%	39.186	39.496	0.310	0.8%	
<b>Other Business Taxes</b>								
Drivers License Fee	6.171	5.854	-5.1%	4.240	4.511	0.271	6.4%	
Investment Licenses	19.535	20.182	3.3%	17.237	19.618	2.382	13.8%	
Lodging Facilities Sales Tax	46.175	51.124	10.7%	22.409	22.889	0.480	2.1%	
Public Contractor's Tax	2.840	4.196	47.7%	1.650	4.798	3.148	190.8%	
Railroad Car Tax	4.020	4.799	19.4%	3.398	3.124	(0.274)	-8.1%	
Rental Car Sales Tax	6.823	8.114	18.9%	3.770	3.658	(0.112)	-3.0%	
Retail Telecom Excise Tax	8.571	7.891	-7.9%	4.376	4.318	(0.058)	-1.3%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	15.359	21.374	39.2%	7.664	9.759	2.095	27.3%	
Electrical Energy Tax	3.930	3.841	-2.3%	1.925	2.028	0.103	5.4%	
Metal Mines Tax	12.210	11.254	-7.8%	0.002	0.001	(0.000)	-29.7%	
U.S. Mineral Leasing	19.464	28.143	44.6%	11.066	21.660	10.594	95.7%	
Wholesale Energy Trans Tax	3.352	3.427	2.2%	1.645	1.778	0.133	8.1%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	16.561	17.947	8.4%	9.844	11.429	1.585	16.1%	
TCA Interest Earnings	11.776	101.367	760.8%	2.658	79.861	77.203	2904.9%	
<b>Other Consumption Taxes</b>								
Beer Tax	3.202	3.294	2.9%	2.118	2.097	(0.021)	-1.0%	
Cigarette Tax	27.993	27.517	-1.7%	17.670	14.233	(3.437)	-19.4%	
Liquor Excise Tax	32.545	31.241	-4.0%	19.391	19.812	0.420	2.2%	
Liquor Profits	18.500	22.600	22.2%	-	-	-	-	
Lottery Profits	15.311	15.264	-0.3%	6.779	14.278	7.499	110.6%	
Marijuana Tax	14.238	27.401	92.4%	-	-	-	-	
Tobacco Tax	5.565	5.451	-2.0%	3.747	3.624	(0.122)	-3.3%	
Wine Tax	2.573	2.641	2.7%	1.752	1.718	(0.034)	-1.9%	
<b>Other Sources</b>								
All Other Revenue	180.512	305.512	69.2%	27.216	285.834	258.618	950.2%	
Highway Patrol Fines	3.533	3.503	-0.8%	2.188	2.244	0.056	2.6%	
Nursing Facilities Fee	3.447	3.153	-8.5%	1.711	1.728	0.017	1.0%	
Public Institution Reimbursements	13.933	8.070	-42.1%	7.663	(0.061)	(7.724)	-100.8%	
Tobacco Settlement	3.426	3.342	-2.4%	-	0.157	0.157	-	
Ongoing Revenue Subtotal	3,755.727	3,539.484	-5.8%	2,289.643	2,533.369	243.726	10.6%	
OTO Revenue & Transfers Subtotal	135.914	260.789			260.789	260.789		
<b>Grand Total</b>	<b>\$3,891.640</b>	<b>\$3,800.273</b>	<b>-2.3%</b>	<b>\$2,289.643</b>	<b>\$2,794.158</b>	<b>\$504.515</b>	<b>22.0%</b>	

# MAJOR SOURCES

## Individual Income Tax: Above Estimate

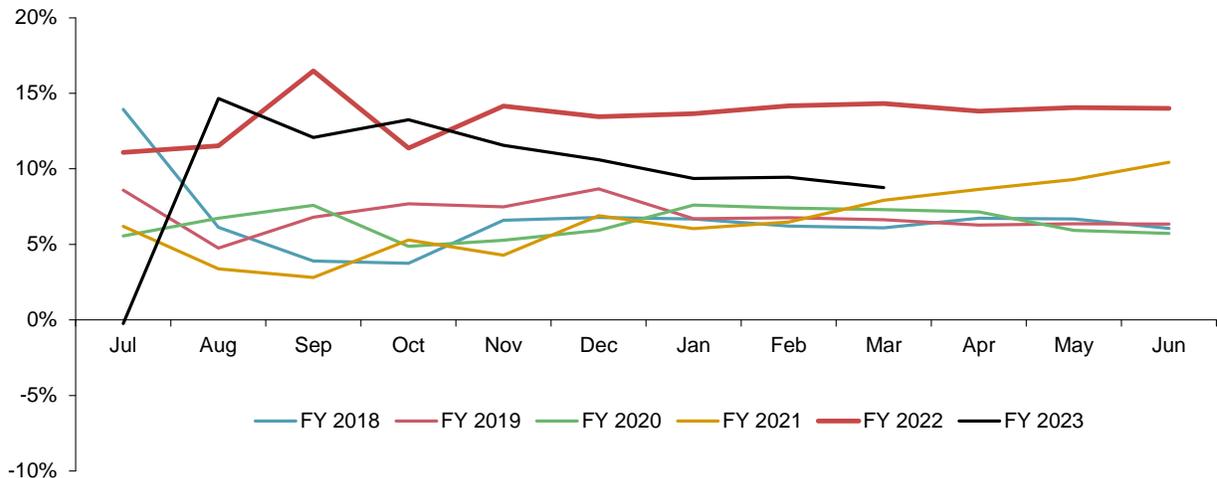
Individual income tax collections through the end of March are \$112.8 million or 7.2% above the year-to-date collections in FY 2022 and is currently above the level anticipated in HJ 2. At the beginning of this legislative session, this source’s growth was 16.0%. The chart below shows the year-over-year individual income tax growth by account.

Individual Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$1,109.8	\$1,020.5	\$89.3	8.8%
Estimated Payments	351.9	309.4	42.5	13.7%
Current Year Payments	106.5	75.1	31.4	41.8%
Audit, P&I, Amended	49.0	43.1	5.9	13.7%
Refunds	(79.3)	3.9	(83.2)	-2123.0%
Partnership Income Tax	128.5	102.9	25.6	24.8%
Mineral Royalties	8.4	7.2	1.3	18.0%
<b>Total</b>	<b>1,674.8</b>	<b>1,562.1</b>	<b>112.8</b>	<b>7.2%</b>

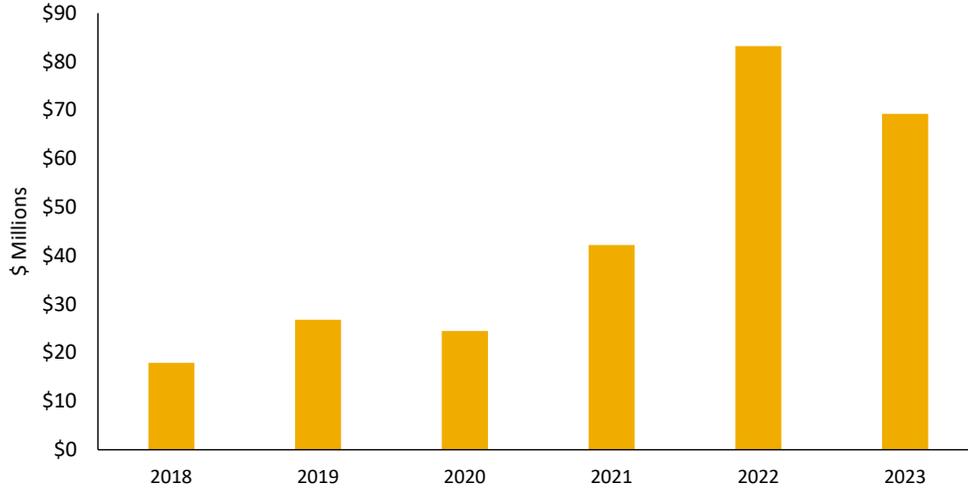
Withholding typically accounts for two-thirds of individual income tax and about one-third of total general fund revenue, though it has been an even larger share in recent years. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February. However, in FY 2021, withholding growth did not stabilize in the second half of the fiscal year, but instead grew considerably. FY 2022 saw withholding growth stabilize at a high level by November. Year-over-year withholding growth continued to slow this month and has been on a decreasing trend throughout the fiscal year.

Cumulative Year-over-Year Withholding



Estimated payment growth continues to be strong. However, like withholding growth, the rate of growth has declined throughout the fiscal year. At the end of the first quarter year-over-year growth was 27.9%. As the table at the top shows, by the end of March this growth has decreased to 13.7%. Partnership income payments from early in the fiscal year were extremely strong. However, the bulk of partnership income payments, which are collected in March, were 17% below last year’s March payments, as shown in the chart below.

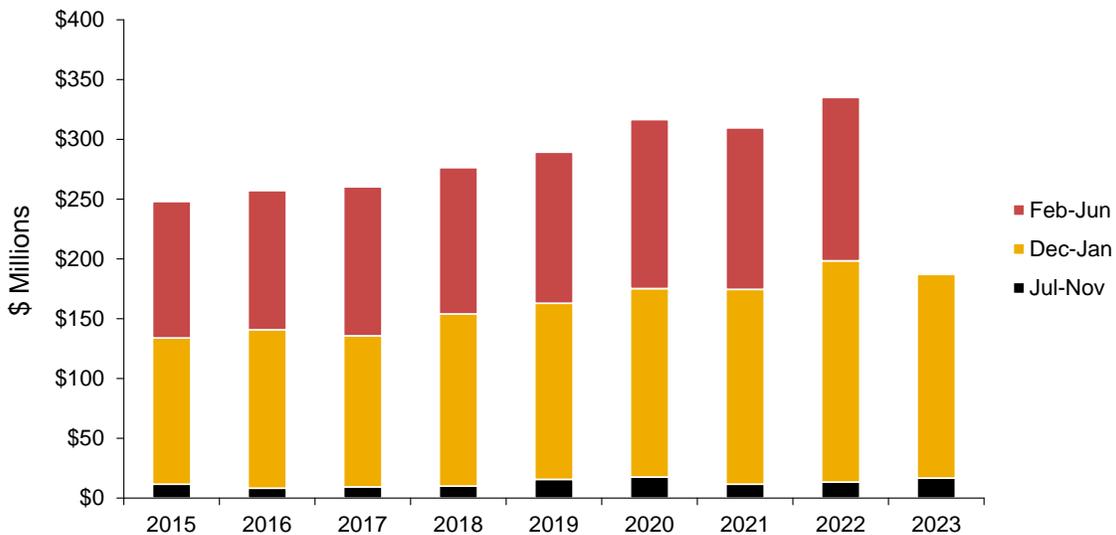
March Partnership Income Tax Collections



**Property Tax: Slightly Below Estimate**

Property tax collections are currently 1.7% or \$3.5 million above last year’s collections. In HJ 2 this source was expected to grow by 5.0%. The first payment last year had larger-than-expected growth, which is causing the year-to-date growth to be slightly lower than expected. It is not uncommon for there to be a discrepancy between year-to-date collections and HJ 2 after the first payment is collected. After the second major property tax payment is booked in June; collections are likely to end up near HJ 2 as this source is typically estimated with a high level of certainty.

FY Property Tax Collections by Period



**Corporate Income Tax: Above Estimate**

Corporate income tax collections through the end of March are 2.3% or \$3.9 million above this time in FY 2022. This is above the HJ 2 estimate which contains a projected decline of 3.2%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been

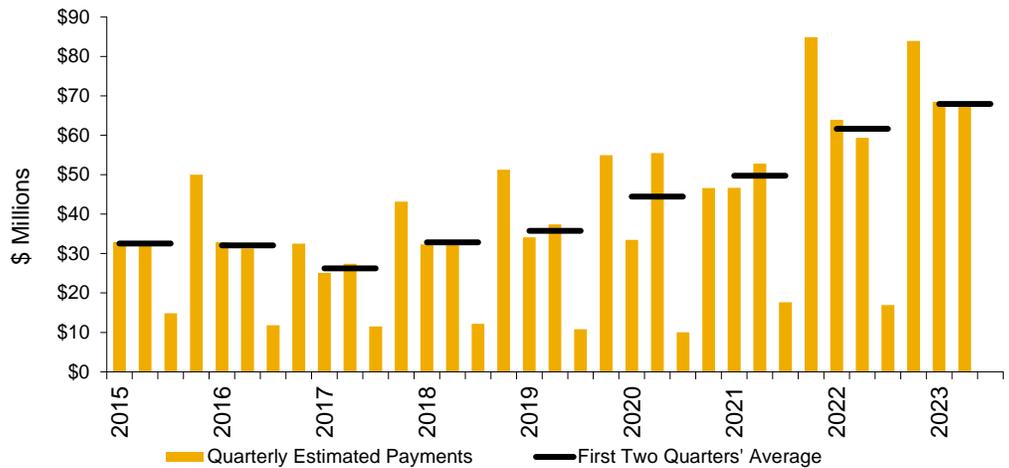
in the form of strong quarterly estimated payments and has been partially offset by refunds and audit collections.

### Corporate Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$29.4	\$26.4	\$3.0	11.2%
Estimated Payments	\$157.7	\$140.3	17.5	12.5%
Refunds	(19.4)	(10.0)	(9.4)	94.1%
Audit, P&I, Amended	5.9	13.0	(7.1)	-54.4%
<b>Total</b>	<b>\$173.6</b>	<b>\$169.7</b>	<b>\$3.9</b>	<b>2.3%</b>

The adjacent chart shows that estimated payments in the first two quarters of FY 2023 are the highest they have ever been. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up.

Corporate Estimated Payments by Fiscal Year Quarter



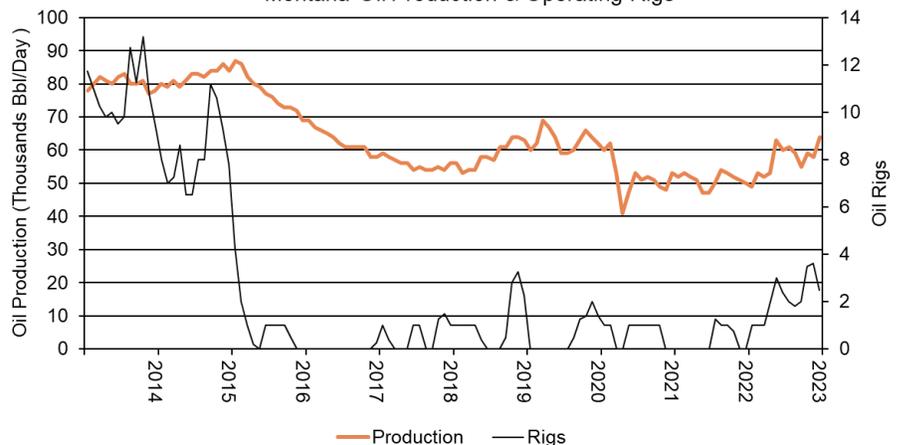
### Vehicle Fees & Taxes: Below Estimate

As of March, vehicle taxes & fees are 5.5% or \$4.5 million below FY 2022 collections. The estimate contained within HJ 2 has this source growing by 0.3% in FY 2023. Month to month volatility in vehicle registration collections is not uncommon, and this source is still expected to be meet or be near HJ 2 by fiscal year end.

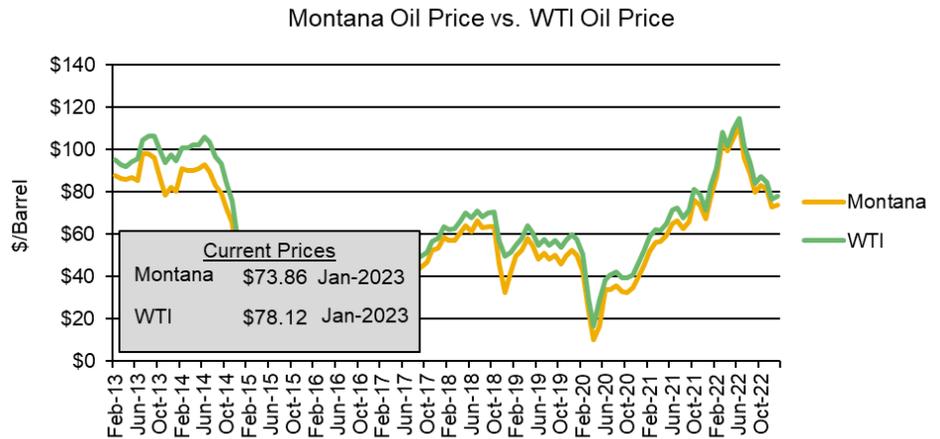
### Oil & Natural Gas Production Tax: Above Estimate

First quarter payments for oil and natural gas tax were \$5.9 million or 39.4% above the first quarter of FY 2022. The growth is primarily due to higher oil prices in the first quarter of FY 2023 compared to the first quarter of FY 2022.

Montana Oil Production & Operating Rigs



Although oil prices have been volatile over the last three years, production has remained relatively stable throughout the past year. The chart to the right shows that while prices are not as high as last summer, they are still significantly higher than what has been experienced over the better part of the last decade.



**Insurance Tax: Above Estimate**

Current insurance tax collections through March are 86.8% or \$29.6 million above FY 2022 collections through the same period. Timing of payments to the various insurance types appears to be a factor in the difference at this time. Last year several payments were not recorded until later in the year, while this year the pattern of collections is more consistent. For example, Fire Marshall Tax collections in the amount of \$13.2 million dollars have already been recorded for this year, whereas in FY 2022 no Fire Marshall Tax payments were received until April when the full amount for the year, \$11.5 million was received. Currently \$67.2 million in premium insurance tax has been collected, however last year collections were very low through March before \$38.8 million in revenue was recorded in April, sending it well above the previous year’s collections. This source appears is on track to meet or exceed HJ 2.

**Video Gaming Tax: Slightly Below Estimate**

Revenue from video gambling is currently \$0.3 million or 0.8% above collections from this time last year. Quarterly collections are nearly identical to FY 2022. In HJ 2 this source is expected to grow by 3.0%. However, after two years of strong growth, this source may have returned to its prior pattern of very little, if any year-over-year growth.

**OTHER KEY DIFFERENCES:**

**Cigarette Tax: Below Estimate**

Year-to-date cigarette tax collections are \$3.4 million or 19.4% below last year’s collections. Currently the variation seems to be a timing issue as month-to-month collections can be inconsistent. However, this source is expected to decline as e-cigarettes, a substitute which are not taxed, gain in popularity.

**Coal Severance Tax: Below Estimate**

Year-to-date coal severance tax collections are currently \$2.1 million or 27.4% above collections from last year. In HJ 2, this source was expected to grow by 39.2%. Production has declined 6.6% compared to last year, however, increased prices have offset the production decline.

**U.S. Mineral Leasing: Above Estimate**

Current U.S. mineral leasing collections through March are 95.7% or \$10.6 million above FY 2022 collections. The HJ2 estimate projects a year-over-year increase of 44.6% for this source. This strong growth is due to continued strong commodity prices, specifically energy commodities such as coal and oil. The increase in collections is likely due to high coal prices early in FY 2023.

**TCA Interest Earnings: Above Estimate**

Current TCA interest earnings through February are 2904.9% or \$77.2 million above FY 2022 collections through the same period. This source is affected by rising interest rates and the Treasury Cash Account's current cash balance. If short-term interest rates remain high and if the TCA's cash balance remains unchanged, this source will continue to return higher monthly interest revenue than previous years. This source will be directly impacted by any legislative action that reduces the general fund ending fund balance.

### **Lottery Profits: Above Estimate**

Lottery profits are currently 7.5 million or 110.6% above collections at this time last year. This is due to in-part to large jackpots in multiple games driving sales. Additionally, sports betting has shown strong growth this year. In a typical year with a record-breaking nation-wide jackpot, sales usually decline sharply after the prize has been claimed, however sales have stayed strong in most games compared to this time last year.

### **Public Institution Reimbursements: Below Estimate**

Public institution reimbursements are currently \$7.7 million or 100.8% below collections at this time last year. Currently Montana State Hospital is unable to recover reimbursements from Medicaid or Medicare which made up the bulk of income for the facility.